



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.17.1

April 8, 2003
03-PPD-028(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Contractor Confirmation of Off-Balance Sheet Arrangements and Related Party Transactions

The Securities and Exchange Commission (SEC) issued its final rule on January 27, 2003 (Release No. 33-8182) entitled "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations." This rule implements the requirements of Section 401a of the Sarbanes-Oxley Act of 2002. This section requires each annual and quarterly financial report required to be filed with the Commission to disclose "all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the issuer with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources or significant components of revenues or expenses."

Registrant companies will be required to comply with these new disclosure requirements for off-balance sheet arrangements in Commission filings that are required to include financial statements for fiscal years ending on or after June 15, 2003. Registrants will also be required to disclose in tabular format the amounts of payments due under specified contractual obligations, aggregated by category of contractual obligation (e.g., long-term debt, capital lease obligations etc.), in Commission filings that are required to include financial statements for fiscal years ending on or after December 15, 2003. Registrants may voluntarily comply with the new disclosure requirements before the compliance dates. A separately captioned subsection of the "Management's Discussion and Analysis" (MD&A) section of the quarterly and annual filings will display this disclosed information.

At such time as this additional disclosed information becomes available for a specific registrant company, auditors should refer to it in lieu of obtaining the contractor written confirmations, CPA inquiries, and internal reviews currently required by CAM 14-306a. Eliminating this confirmation requirement does not, however, preclude the auditors from requesting further explanatory or cost detail from the company to better understand the maximum liability connected with any disclosed off-balance sheet arrangement or contractual obligation when they are conducting detailed financial condition risk assessments or financial capability audits. Since the SEC disclosure rules are only applicable to registrant companies, auditors should continue to follow the procedures in CAM 14-306 for all companies not required to file financial statements with the SEC.

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FAO questions regarding this memorandum should be addressed to their regional office. Regional personnel with questions may contact Ms. Debbie Neville, Program Manager, Policy Programs Division at (703) 767-2270.

/Signed/
Robert DiMucci
Assistant Director
Policy and Plans

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